CITY'S FINANCIAL CONDITION & PERFORMANCE

MESSAGE FROM THE DEPUTY CITY MANAGER & CHIEF FINANCIAL OFFICER

The 2008 Consolidated Financial Statements contained in this report are intended to provide Council, the public and the City's debenture holders an overview of the state of the City's finances at the end of the fiscal year.

2008 Financial Highlights

- The City collected consolidated revenues of $9.51 billion (2007 – $8.86 billion) and spent $9.96 billion (2007 – $9.47 billion) for a net consolidated expenditure of $451 million (2007 – $606 million).
- The City's net liabilities increased by $444 million to $3.33 billion (2007 – $2.89 billion).
- The employee benefits liability increased by $188 million to $2.59 billion (2007 – $2.40 billion).
- Net long-term debt to third parties decreased by $17 million to $2.74 billion (2007 – $2.76 billion).
- Mortgage debt obligations of Toronto Community Housing Corporation declined by $30 million to $869 million (2007 – $899 million).
- Capital spending for the year was $1.96 billion (2007 – $1.86 billion).
- The level of unfinanced capital expenditure increased by $431 million to $589 million (2007 – $158 million).
- Cash and investments increased $336 million to $4.05 billion (2007 – $3.71 billion).
- Deferred Revenue increased by $684 million to $1.92 billion (2007 – $1.24 billion)

Last year's capital and operating budgets supported City Council's debt management plans and investment strategies. To accomplish this, financial plans were implemented to maintain the City's financial health in an uncertain economy. In the City's continuous efforts to move towards fiscal sustainability, we have successfully completed three of the six goals set out in the 2008 budget:

1. Continuous improvement and cost control
2. New Taxation Measures
3. Agreement on the uploading of Social Services programs

The remaining goals are:

4. Provincial Transit operating funding (50 per cent)
5. Growth revenues – equivalent of One Cent Share of the GST
6. National Transit Strategy (capital)

Cost containment measures in 2007 and sound investments in 2008 have strengthened the City of Toronto's position in today's economy. The City's 2008 budget of $8.2 billion is balanced in part by a net 2007 operating surplus of close to $95 million (almost $17 million more than anticipated), property tax growth (representing 2.1 per cent of the budget), and the uploading of $39 million of the Ontario Disability Support Program and $149 million in additional transit funding. In 2008, the City of Toronto generated significant surplus of $109 million on an unconsolidated basis.

In 2008, the introduction of new taxation measures: Municipal Land Transfer Tax (MLTT) and the Personal Vehicle Tax (PVT) helped reduce pressure on property taxes. With property taxes making up $3.4 billion of revenue for Toronto's operating and capital budget, the new taxes provided some relief from reliance on property taxes as the main revenue source, by generating $181 million in additional revenues. Half of all property taxes ($1.65 billion) were spent on police, fire and ambulance services and on servicing the debt. The City committed $53 million in 2008 (including 0.375% of property tax revenues) to new strategic investment in priority neighbourhoods, transit, waste diversion, and the beautification of public spaces.

Although capital spending has remained under budget, actual spending has increased in 2008. In total, the City of Toronto spent about $198 million maintaining capital programs such as Social Housing, Health Services and Transportation and General Government to name a few. There was also an increase in Toronto Water due to constructions proceedings on several large projects in capital spending and this was financed 100 per cent from water rates.

A significant step to achieving greater fiscal sustainability involves strengthening our relationships with both the provincial and federal governments. The City continues to negotiate with the province to honour legislated social service cost-sharing and to secure a fair Transit Operating Subsidy.

In 2008, the City's efforts in expenditure restraint and long-term financial planning have been positively received by the City's independent rating agencies. The result: Standard and Poor's upgraded Toronto's AA credit rating from stable to positive. The City also won the Canadian Award for Excellence in Financial Reporting from the international Government Finance Officers Association (GFOA) of the United States and Canada for the 2007 Annual Financial Report which recognizes the City's spirit of transparency and full disclosure.

Carrying out all of these initiatives, programs, budgets and financial details takes a talented, collaborative and financially astute team. All City of Toronto staff work hard to budget, plan and implement funds to run core City services for a liveable and prosperous city. In my new role as Deputy City Manager and Chief Financial Officer and former Treasurer of the City, I realize how much work it takes to financially sustain and support an organization as large, diverse and service-based as the City of Toronto. I am honoured to be leading such a talented, dedicated and enthusiastic group of people and present the 2008 Financial Report on behalf of the entire City.

Cam Weldon
Deputy City Manager & Chief Financial Officer

| FISCAL CAPACITY

Toronto enjoys a highly diverse economy which positions it to be internationally competitive. Yet every year, the City faces the challenge of matching its spending needs to its ability to raise revenues. There is a permanent or "structural" mismatch between spending and revenues. This has been caused by three main reasons:

- The City's primary revenue sources, property taxes and user fees, do not grow with the economy like income and sales taxes do. Residential property taxes and user fee increases over the years have generally followed the Consumer Price Index. As well, high property tax yielding industrial properties are being converted to low tax yielding residential properties.
- The City's operating costs have been increasing faster than the Consumer Price Index because of unique and diverse needs, higher construction, energy and labour costs, and because of increasing demands for service and service enhancements.
- The City's physical infrastructure is getting older and is now in serious need of replacement. The only way to fund it is through debt, which creates the triple problem of increasing debt service costs, and concurrent tax and rate pressures. At the same time, the City's unfunded liabilities are growing, particularly in the area of employee benefits.

The Conference Board of Canada provided a clear and objective analysis of this issue. In its June 2005 report titled "Measuring Toronto's Fiscal Capacity: An Executive Summary". It indicated that the City faced a combined capital and operating annual fiscal shortfall of $1.1 billion in 2006 to fulfill its current program responsibilities and begin to address its infrastructure gap. The study also indicated that the imbalance would grow by over $100 million each year unless property taxes were able to grow by the same amount. The study identified an upload of financial responsibilities and/or transfer of sales or income tax revenue capacity from the provincial or federal government as a solution to the shortfall.

In 2006, the Ontario Government and its municipalities began the joint Provincial-Municipal Fiscal and Service Delivery Review. By 2007, the Province announced as an early outcome of the review that it would fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit Program (ODB) to be completely phased in by 2010.

In October 2008, the Ontario Government announced the final results of the Provincial-Municipal Fiscal and Service Delivery Review. Starting in 2010, the Province will begin a phased-in plan to pay the full cost benefit of Ontario Works by 2018. In addition, starting in 2012, the Province will begin to pay the costs for security in provincial courts. These uploads will reduce the City's financial exposure to income-redistributive programs (Ontario Works) and make municipal taxes and services more competitive with the rest of Canada where these costs are not borne by municipalities. It will also allow the City to use its financial resources to fund the infrastructure backlog. These measures will enable the City to have greater financial flexibility and predictability in building its budget.

City Council in 2007 approved two new taxes under the provisions of the new *City of Toronto Act, 2006,* for implementation in 2008. These two new taxes are: Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT). Although the revenue generated from these new taxes are not a significant proportion of the City's revenue budget, they help to improve the City's fiscal capacity by reducing the City's reliance on the property tax base.

The current economic recession is putting the City's fiscal capacity under stress. Revenues and expenditures that are sensitive to the economic conditions are expected to create operating budget pressures. Examples include TTC fee revenue which is tied closely with employment; and social assistance (Ontario Works) cost (before upload is completely phased in) which is closely correlated with the unemployment rate. On the other hand, declining commodity prices and low interest costs may offset some of the budget pressures. City staff are closely monitoring the economic indicators affecting City finances to ensure that proper response actions are taken.

I PHYSICAL INFRASTRUCTURE

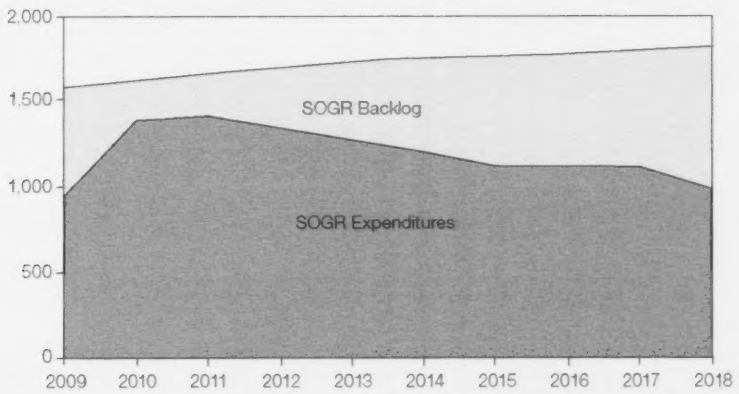
The City owns a significant amount of physical assets, comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $62 billion. The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

City's Infrastructure is Substantial

	Estimated Asset Value
Transportation Infrastructure	$10 Billion
Water & Wastewater Infrastructure	$27 Billion
Public Transit System	$10 Billion
Buildings, Facilities & Fleet	$9 Billion
Housing Infrastructure	$6 Billion
Total (excluding parkland and land)	$62 Billion ++

The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged — 50% of the water pipes and 30% of wastewater pipes are more than 50 years old, while 7% of watermains and 3% of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's current spending in the capital program is less than ideal. The City's capital backlog is estimated to be $17.6 billion over the next ten years. As indicated in the chart below, the City has committed $10.6 billion for the same time period for the state of good repair. It is anticipated that the growth in backlog will stabilize by 2014. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc. are required, which will put pressures on the City's capital and operating budgets to build facilities and provide additional services.

> BACKLOG STABILIZING IN 2014

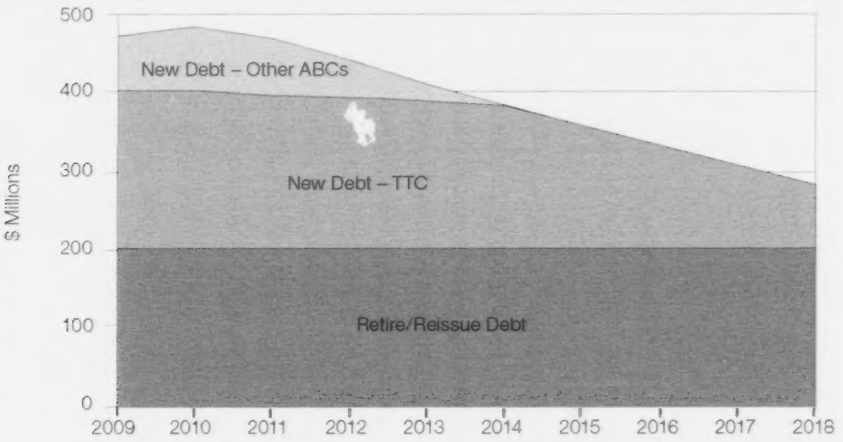


2009 Capital Budget & 10 year Capital Plan & Forecast
SOGR = State-of-Good-Repair

CAPITAL FINANCING & DEBT

The City borrows to fund capital expenditures. It cannot borrow to fund operating expenditures under the *City of Toronto Act, 2006*. Toronto has enjoyed relatively low debt levels; however, there is a sizeable gap between future capital expenditure needs and ongoing sustainable revenue sources. For the next 10 years, the TTC's borrowing requirement is projected to make up the majority of the new debt required to fund the City's capital requirement. In fact, 90% of the new debt over the five-year period 2009 – 2013 is allocated to the TTC for vehicle replacement and Growth Strategy.

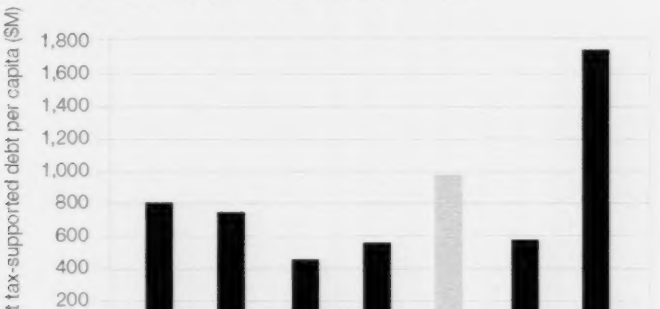
> NO MORE NEW DEBT AFTER 2013 OTHER THAN FOR TTC



2009 Capital Budget & 10 year Capital Plan & Forecast

Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to most other major Canadian municipalities.

> TORONTO'S NET DEBT IS COMPARABLE TO OTHER MAJOR CANADIAN CITIES

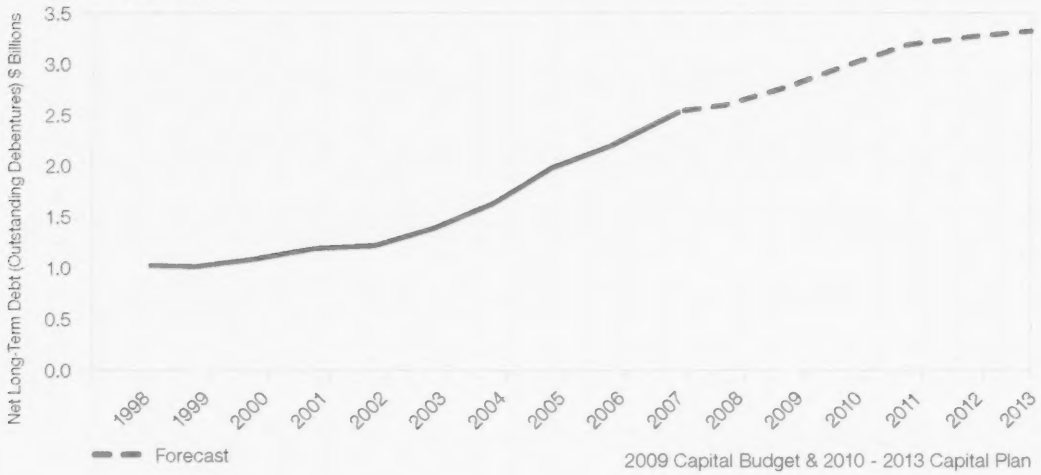


Source: DBRS Canadian Municipal Government Fact Sheet - Nov. 2008
Based on 2007 Financial Report except Vancouver (2006)

Going forward, current preliminary estimates showed that the City's net long-term outstanding debentures would increase from $2.3 billion at the end of 2008 to just over $3.0 billion by 2013. Gas tax funding from the federal and provincial governments, as well as provincial transit funding, has alleviated some of the capital financing pressures and will help to lessen future debt requirements. In 2007, Council approved the Financial Planning Process and a pilot of the 2008 Service Planning Process, which set the framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

> CUMULATIVE NET DEBT

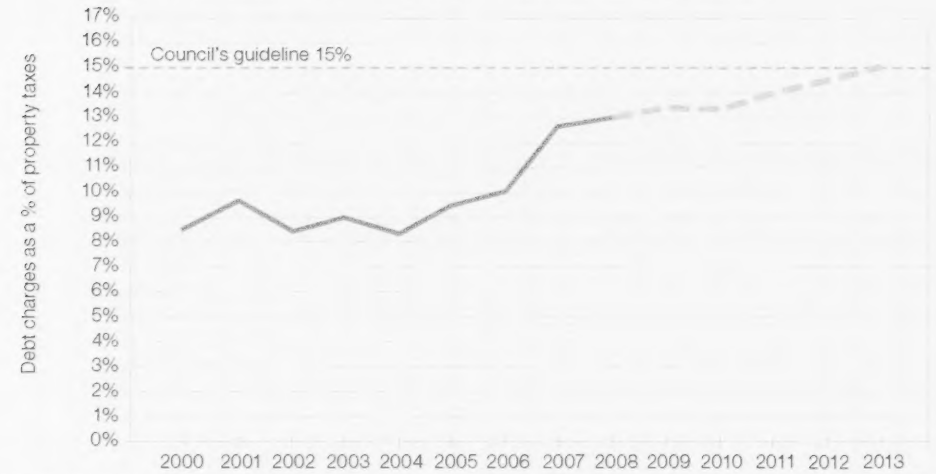
(Tax Supported)



2009 Capital Budget & 2010 - 2013 Capital Plan

Debt charges are the second largest component of the property tax bill (behind police services). In 2006, City Council approved a new debt service guideline such that the debt service cost should not exceed 15% of property tax revenues in a given year. Although only a guideline, this limit means that at least 85 cents on each tax dollar raised is available for operating purposes. Current forecast shows that the City's debt charges will fall within this guideline in the next five years.

> DEBT CHARGES WITHIN NEW COUNCIL'S GUIDELINE



2009 Capital Budget & 2010 - 2013 Capital Plan. Total debt charges include interest & principal payments

I CAPITAL MARKET & INVESTMENT ACTIVITIES DURING 2008 & THE OUTLOOK FOR 2009

During 2008, many financial institutions as well as overall consumer confidence faltered and unemployment grew amidst a global credit crisis, leaving governments with little choice but to introduce very large fiscal stimulus packages whose effects will be felt in the coming years.

Liquidity and capital preservation continue to be a very important feature and the City's debt issue program was structured to ensure that it increased the liquidity being provided to investors by issuing debt in larger amounts with the ability to reopen bond issues, depending upon capital market conditions.

During the year, the City issued approximately $300 million of its approved $500 million debt program and had approximately $200 million remaining that was not utilized from the 2008 Council authority. This transaction received a good reception in a challenging and difficult bond market. The term-to-maturity of this issue blended current capital market conditions with the matching of the economic life of various capital expenditures to their financing terms. The structure and pricing of the transaction achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by provincial legislation.

The City's debt-issuance syndicate advised that if the City does not have to issue debt in this market which is virtually non-existent for municipal borrowers, it should wait until possibly Spring 2009 to ascertain if there will be an opportunity to issue the remaining $200 million as well as 2009 requirements. This postponement has not presented a cash management concern.

Due to the market-driven delay, the 2009 debenture authority was increased from the planned amount of $500 million to $700 million to accommodate the remaining 2008 requirement.

Financial Market Environment during 2008 and 2009

The fixed-income and investment markets have so far endured a very challenging and unprecedented volatile year, given the increases and decreases in energy prices, a rapid rise in the value and fall of the Canadian currency as compared to the US dollar, the sub-prime mortgage crisis in the US which has expanded to a global credit crunch and the curtailing of worldwide credit markets and the frozen asset-backed Commercial paper (ABCP) market issued by third parties.

It should be noted that the City has never held any of these investments and such investments are not allowed in its investment policy. Actually, the City's portfolio of high grade bonds and money market securities benefited from a "flight-to-quality" as investors sought safety of principal by investing in government bonds and treasury bills, decreasing yields and increasing the market value of these securities while maintaining its high credit quality and liquidity.

As of December 31, 2008, the City's bond portfolio consisted of 80% in AAA/AA credit-rated securities and 20% in A credit-rated securities and no holdings in BBB or lower-rated investments, reflecting the continued high credit quality and liquidity of the portfolio.

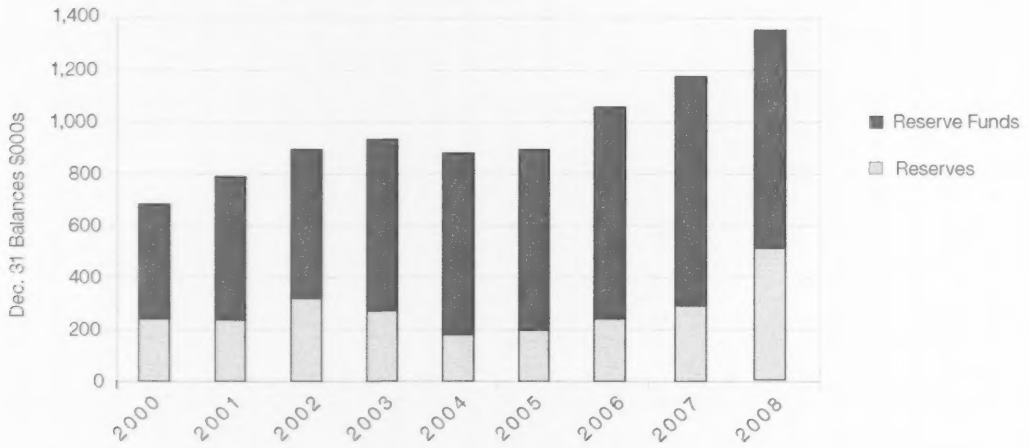
The City will continue to monitor the domestic and international capital markets as well as evaluating alternative financing vehicles to identify opportunities to achieve the lowest cost of capital funds and the best investment opportunities during 2009.

RESERVES & RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements. While the reserve and reserve fund balance in Council-directed funds would appear to be a large sum, it should be noted that the majority of these funds are committed. Due to its structural financial shortfall mentioned earlier, the City has relied on reserve draws as a one-time revenue source to offset annual operating pressures. Since amalgamation, the total reserve draw to fund the operating budgets was estimated to be over $1 billion. These one-time draws have limited the City's future financial flexibility in responding to risk and adverse circumstances.

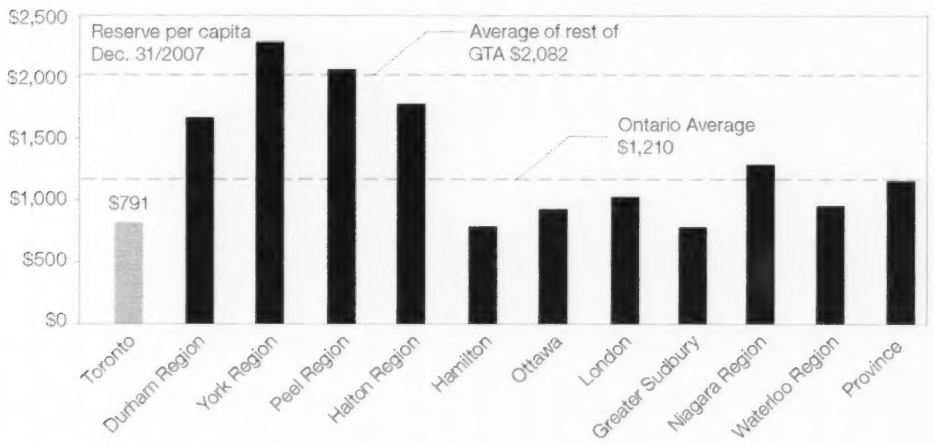
> RESERVES AND RESERVE FUNDS

(excluding Obligatory Reserve Funds/Deferred Revenues)



On a comparative basis, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities — just two-thirds of the Ontario average and just 38% of the average of the rest of the Greater Toronto Area (GTA), as shown in the following figure. If the City were to have the same reserve per capita as the average of the rest of the GTA, it would have over $3.5 billion in reserves, or almost three times the current balance, which would provide sufficient funds to offset its outstanding debt and fully fund its employee liabilities. The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserve and water and wastewater stabilization reserves, to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

> RESERVE LEVELS ARE LOWER THAN OTHER MUNICIPALITIES



Sources: Ontario Ministry of Municipal Affairs & Housing - 2007 FIR, City of Toronto
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds received from the other orders of government or third parties earmarked for certain purposes, e.g. Transit, Social Housing, Development Charges, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds categorized as Obligatory Reserve Funds as at December 31, 2008 was $1.4 billion. These funds are all committed, some of which will be used to fund some of the City's priority capital needs, and are not available at Council's discretion.

| REVENUES

PROPERTY TAX

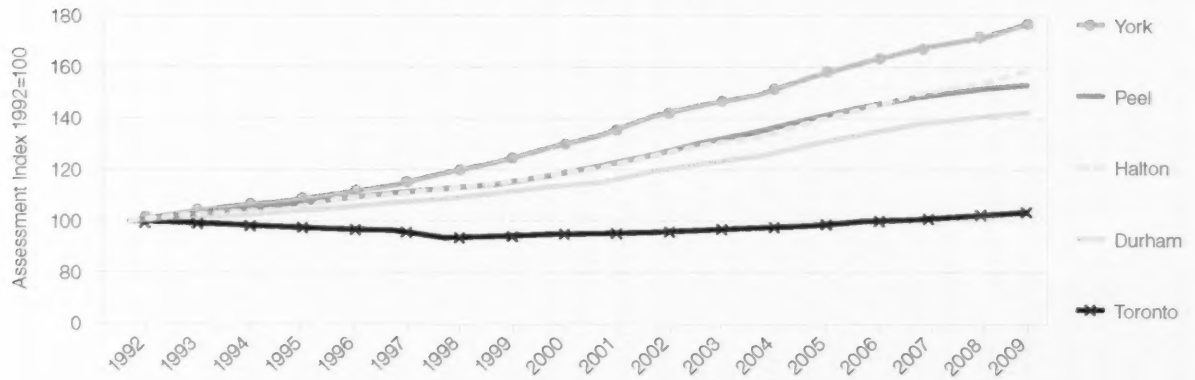
Property tax revenue is the City's single largest source of revenue and represents 42% of the total operating revenues from levy operations. The City collects $3.5 billion from Municipal Land Transfer Tax, Personal Vehicle Tax, and residential and business property taxes.

Every year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates prescribed by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g. residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the provincially-determined costs of education.

Over the last 16 years, the GTA experienced quite remarkable economic and population growth following the recession of the 1990's. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada with respect to population between 2001 and 2006, such as Milton (71.4%), Brampton (33.3%), Vaughan (31.2%), Markham (25.4%), Richmond Hill (23.2%) and Ajax (22.3%). The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA.For example, from 1992 to 2009 York Region's total assessment increased by 76%, Halton Region (which contains Milton) saw a 58% increase, Peel Region's increased by 53%, and Durham Region's increased by 45%. By comparison, the City of Toronto saw a gradual decline in assessment from 1992 to 1998, and there has been only a minimal increase since then. In fact, Toronto's property assessment is only 4% above its 1992 level.

> UNLIKE THE REST OF GTA ENJOYING SIZABLE ASSESSMENT GROWTH, TORONTO HAS JUST RETURNED TO ITS 1992 LEVEL

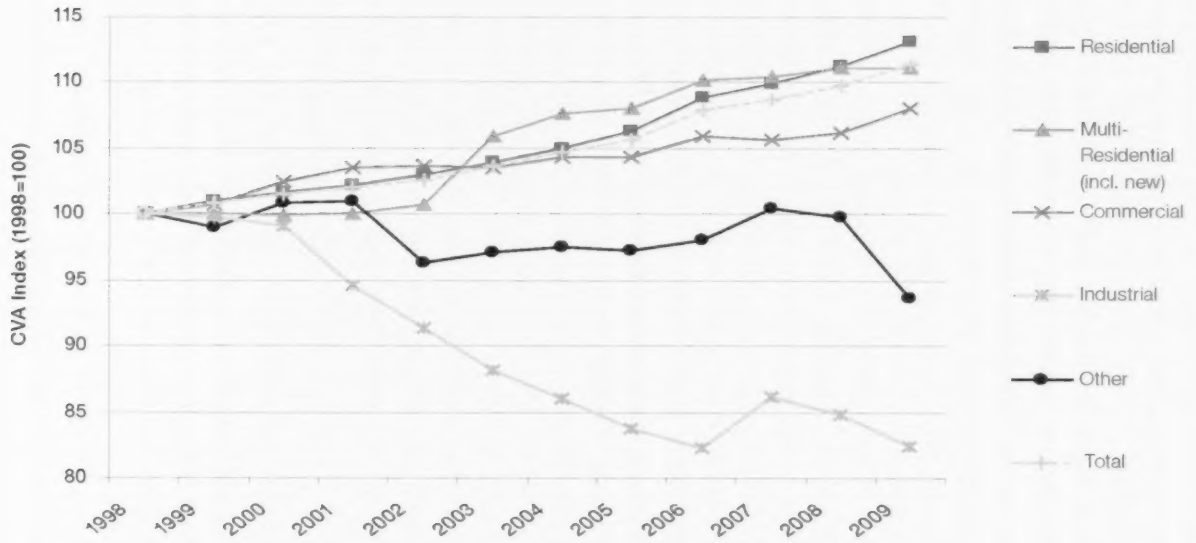


Source: MMAH's MARS, MPAC, Annual Financial Reports of the respective regions and survey.

The total CVA of the City's properties saw a total true net growth of 11.4% from 1998 to 2009 when the impacts of property reassessment are removed. Within the various property classes, residential properties had a true growth of 13.2%, and multi-residential properties had an increase of 11.2%. For the non-residential properties, while commercial properties had just a modest 8.1% in true assessment growth, industrial properties had a net decrease of over 17.6%. This is illustrated in the chart below.

> TORONTO'S TRUE ASSESSMENT GROWTH (EXCLUDING REASSESSMENT IMPACT)

1998-2009



In 1998, the Province of Ontario reformed the property assessment and taxation system in Ontario with the implementation of the Current Value Assessment (CVA) system. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market (arm's length sale between a willing seller and a willing buyer at a fixed point in time). The Municipal Property Assessment Corporation (MPAC) is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities.

Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established by the Province, are restricted from passing on municipal levy increase to those classes. In Toronto, tax ratios for the Commercial, industrial and multi-residential tax classes all exceed the provincial thresholds, as shown on the next chart, which means that limited municipal levy (budgetary) increases can be passed on to these classes so long as the ratios exceed the threshold limits.

Toronto's Tax Ratios Vs. Provincial Threshold Ratios

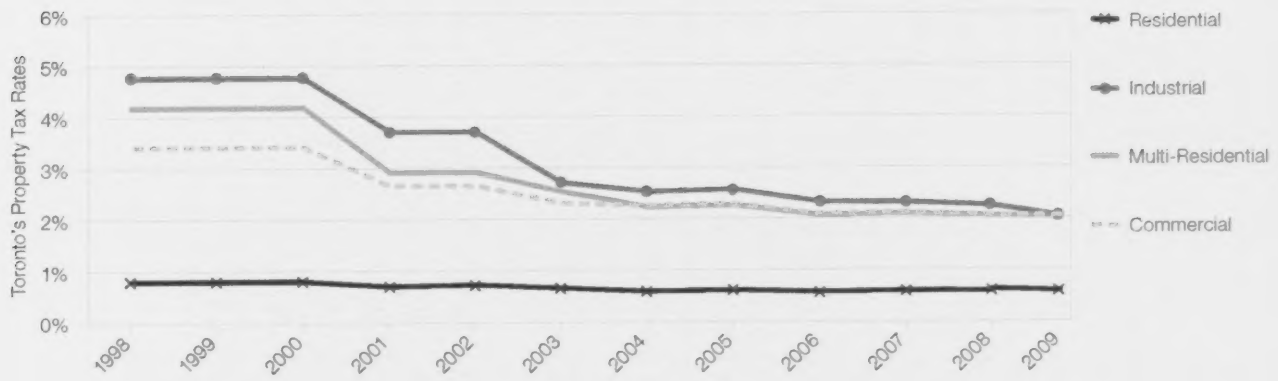
	2001 Taxation Year	2002 Taxation Year	2003 Taxation Year	2004 Taxation Year	2005 Taxation Year	2006 Taxation Year	2007 Taxation Year	2008 Taxation Year	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.762	3.707	3.635	3.546	3.469	2.74
Commercial	3.798	3.640	3.516	3.802	3.746	3.674	3.584	3.506	1.98
Commercial Small								3.410	1.98
Industrial	5.301	5.081	4.120	4.273	4.211	4.090	3.920	3.740	2.63

Since 2004, the Ontario Government has, in its annual budget, introduced regulations and made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, allowed tax rate increases on the non-residential classes to be no more than 50% of the rate for the residential tax class.

Enhancing Toronto's Business Climate – It's Everybody's Business

In late 2005, Council approved a comprehensive property tax policy to improve the business climate in the City, and consequently in 2006, implemented the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-Residential tax classes (i.e. a 1% non-residential tax increase for a residential tax increase of 3%), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years. In addition, the policy provides for an accelerated tax reduction for neighbourhood retail and small businesses that will see their tax ratios fall to 2.5 times residential within 10 years (2015), as well as property tax relief measures for non-retail office, hotel and industrial developments. Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the City's Commercial industry. The chart below shows that Toronto business taxes have been reduced since 1998.

> BUSINESS TAXES HAVE BEEN REDUCED



For 2009, properties have been reassessed to reflect a January 1, 2008 valuation date. This updates assessed values from the previous base of January 1, 2005, following a moratorium on reassessments that arose from a critical review of the property assessment process by the Provincial Ombudsman in 2006. An outcome of this review has resulted in amendments to the Assessment Act, most significantly providing for a four-year reassessment cycle with Current Value Assessment (CVA) increases being phased-in between the four-year periods. This means that any increase in CVA from the reassessment will be phased-in at incremental increases of one-quarter of the total increase, spread over 2009 to 2012 taxation years. CVA decreases are not subject to phase-ins and will be applied immediately. The next reassessment is for 2013-2016.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, Commercial, industrial, or multi-residential). The total tax rate for a class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the costs of education. The table below illustrates the 2008 taxes payable for the average household in Toronto with an assessed value of $365,468.

Average residential assessed value – $365,468

	2008 Tax Rate	2008 Property Tax
Municipal Purposes	0.6109226%	$2,233
Education Purposes	0.2640000%	$ 965
Total	0.8749226%	$3,198

The Municipal Act, and the *City of Toronto Act, 2006* for Toronto, establishes the rules that govern the assessment and taxation of property in Ontario. The Act mandates limits on re-assessment related tax increases to 5% per year for the Commercial, industrial and multi-residential property classes, which for many properties in these classes may result in a phase-in towards their CVA level of taxes.

Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also implemented.

Tax relief policies in effect for 2008 include:

- The cancellation of any tax increase for seniors aged 65 or older, or disabled persons living with a household income of $26,000 or less, with residential property assessed values less than $454,000 and who have occupied his/her home for at least one year.

- The interest-free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is $40,000 or less and have owned the property for at least one year.

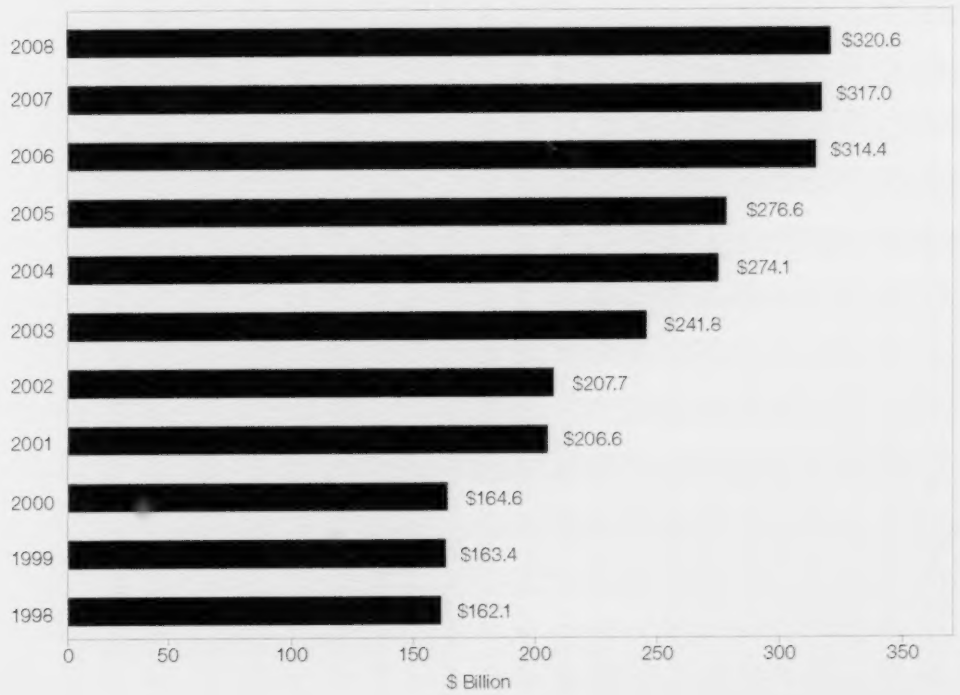
- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

Property Assessment

The following chart shows the total values of property assessment (CVA) in the City of Toronto since 1998.

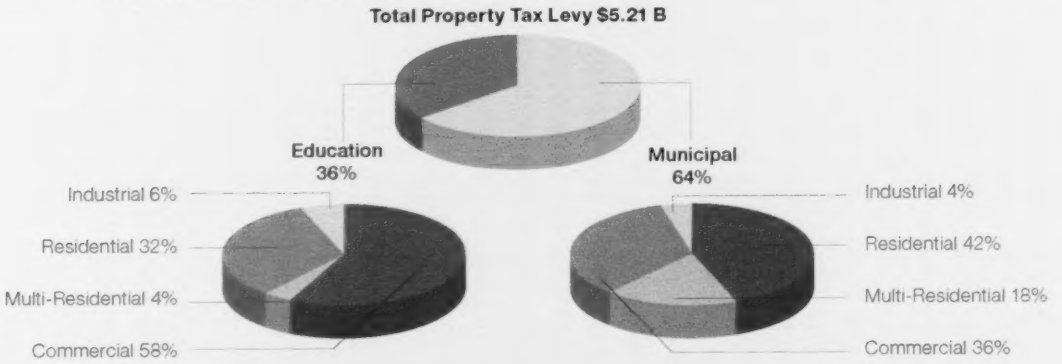
> TOTAL TAXABLE PROPERTY ASSESSMENT VALUES

City of Toronto 1998-2008



The following charts show the breakdown of the City's 2008 property tax levy:

> TORONTO 2008 PROPERTY TAX LEVY



USER FEES

User fees are the City's second largest source of revenue. In 2008, Council approved and implemented a new User Fee Policy. The directive prescribes that, "where direct users can be identified, City user fees be established to recover the full cost of the relevant service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected."

Council, in 2007, approved a new plan to achieve a Solid Waste diversion goal of 70% by 2010, by providing effective and efficient waste management and resource recovery services to residents and businesses in order to maintain a clean and healthy city. As part of the initiative, a new funding system, the volume-based rate structure, was implemented November 1, 2008 to pay for the required additional programs and services. This funding plan transforms Solid Waste Management (garbage collection, recycling, green bin, litter prevention, landfill management and other diversion programs) from being tax-based to user fee-based, and its fees are now part of the Utility Bill, together with the water charges, that are sent to city property owners.

Total user fee revenues represent 22% of total tax and rate-supported operating revenues. They include transit fares, parks and recreational fees, Water and Wastewater charges, as well as Solid Waste fees. The City's current user fee structures are at levels generally comparable to, and competitive with, the surrounding municipalities.

OTHER REVENUES

The City receives other revenues such as grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health and Social Housing, as well as other income such as earnings from government business enterprises and investment income. The total of these revenues makes up about 17% of the total tax-and rate-supported operating revenues.

NEW TAXATION

Two new taxes: Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT) were implemented in 2008 (MLTT – February 1, 2008 and PVT – September 1, 2008). The City of Toronto is the only Ontario municipality with the legislative authority (*City of Toronto Act, 2006*) to levy taxes other than property taxes. In 2008, the two new taxes brought in revenues totalling approximately 2% of the City's total tax-supported Operating Budget.

| CREDIT RATINGS

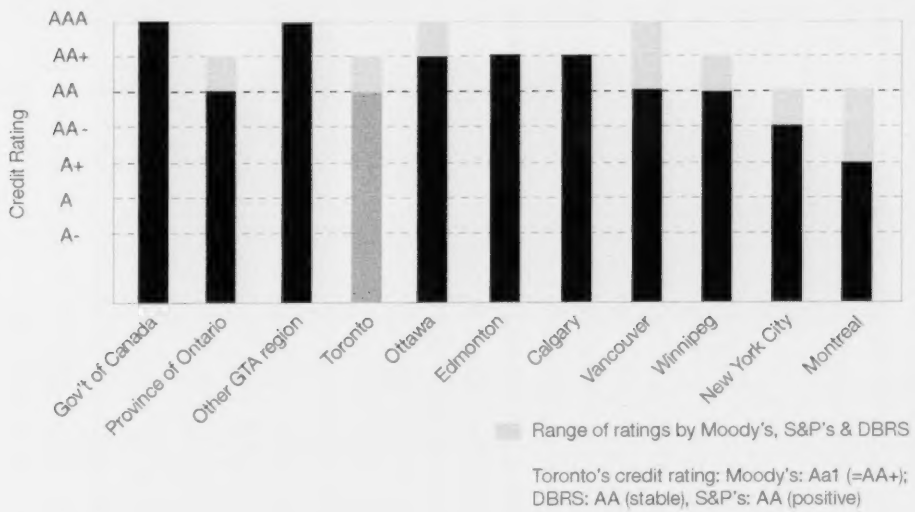
The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective world capital markets will continue.

A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating, such as quality of management; strength of economy; level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high, this will have a negative impact on its credit rating. If debt levels are considered low, this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains among the highest of comparably sized or larger North American cities such as Chicago, New York, Vancouver and Montreal.

> TORONTO'S CREDIT RATING



Toronto's credit rating: Moody's: Aa1 (=AA+);
DBRS: AA (stable), S&P's: AA (positive)

Currently, the City of Toronto's credit ratings are:

- AA with a stable trend from the Dominion Bond Rating Service Ltd. (DBRS) – reaffirmed September 2008
- AA with a positive outlook from Standard and Poor's Canada (S&P's) – upgraded March 19, 2008
- Aa1 with a stable outlook from Moody's Investors Service – reaffirmed March 2009

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
DBRS	AA	AA	AA	AA	AA	AA	AA	AA (high)	AA (high)	AA (high)	AA (high)	AAA
Standard and Poor's	AA	AA	AA	AA	AA	AA	AA	AA+	AA+	AA+	AA+	AA+/ AAA
Moody's Investors Service	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2

Credit rating agencies regularly issue reports respecting the industries and individual issuers. Here are some of the excerpts from those reports that generally explained the high rating held by the City of Toronto, and that Canadian municipalities were expected to weather the economic downturn, but cautioned that if the downturn were to last longer or deeper, those municipalities with more export-oriented manufacturing businesses, and those with more financial responsibilities for welfare, could be exposed to higher budget pressures. The good news is the Federal Budget (January 27, 2009) and the Ontario Budget (March 26, 2009) both contained economic stimulus packages which are expected to, amongst other things, create local employment through the capital infrastructure projects.

"The City of Toronto's debt rating of Aa1 reflects the City's low debt burden and low debt service ratios, as well as Toronto's relatively high levels of cash reserves, providing liquidity. The rating also reflects the positive operating results recorded over the past several years despite numerous challenges requiring annual adjustments to the City's operating budget. Moreover, the City's rating reflects a large and diversified economy, which remains a source of credit strength despite the near-term economic uncertainty. The City retains an important economic role as Canada's largest urban center and its financial capital.

Slowing Economy Could Increase Near-Term Welfare-Related Expenses – The impact of the slowing economy on the City's welfare caseloads and related social service expenses represents another risk to Toronto's operating budget performance. In 2007, social and family services represented 23.2% of Toronto's operating expense base; in the event of a worsening recession, this figure could increase, applying pressure on the City's operating budget in the near term.

But Long-Term Flexibility to be Enhanced by Changes to Provincial-Municipal Framework – In 2008, the Province of Ontario completed its Provincial-Municipal Fiscal and Service Delivery Review and announced that it would assume the full costs of Ontario Works (welfare) benefits gradually over ten years; to date, municipalities had assumed 20% of the costs of this program. Moreover, starting in 2012, the province will assume the costs of provincial court security. Combined with previous announcements respecting provincial uploads of other social service programs, these changes, while phased-in over a multi-year period, are expected to provide some relief to the City's operating budget over the long term."

Moody's Investors Service, March 2009

"Toronto, Canada's largest city and the capital of Ontario, has the deepest and most diversified local economy in the country.....Thanks to new federal and provincial grant streams, the City's financial flexibility has been increasing and should continue to do so as a result of new municipal taxes. Toronto's operating surplus strengthened in 2006 for the second consecutive year. Although the City has robust and increasing cash balances, its internal reserves and provincial and federal capital grants are not sufficient for its large infrastructure programs, so debt remains an important and growing capital funding source. Despite the steadyrise, the City's debt burden has remained quite manageable, mainly due to the healthy operating revenue growth.

Canadian municipalities are resilient and should withstand the economic chill. Overall, their financial health is good and they have strong support from their senior counterparts, provincial and federal governments. There is no doubt that in general Canadian municipalities will be affected as the U.S. – Canada's biggest trading partner – faces tough times ahead. In addition to the effects of the strong Canadian dollar on trade competitiveness, softening U.S. demand will dampen exports.....Standard & Poor's Ratings Services believes there will not be widespread deterioration in the credit quality of rated municipalities. We are keeping an eye on potential problems, such as decreasing tax revenues and rising debt. But overall, the resilient Canadian economy, municipalities' adequate financial strength, the support from senior levels of government, and good planning should ensure that Canadian municipalities weather the developing storm....."

"Canadian Municipalities Should Withstand the Developing Economic Cold Front"
Public Finance Report Card for Canadian municipalities, Standards & Poor's, June 2008

"Federal Stimulus Would Help – Municipal governments may have some flexibility on the capital side by deferring or even cancelling infrastructure projects. .... If the federal government does step up capital spending in the next year... municipalities could benefit from new tri-partite infrastructure programs or monies made available specifically to support public-private partnership initiatives. This could lead them to accelerate their capital plans and debt issuance.... Most municipalities should be able to withstand some erosion in financial health without seeing their credit quality significantly affected."

"Canadian Municipalities Enter Economic Slump From A Position of Strength"
Standard & Poor's December 2008

I PERFORMANCE MEASUREMENT AND BENCHMARKING REPORT

Introduction

To provide context for evaluating the performance of the City of Toronto Government, it is important to consider that municipal property taxes comprise only 5.6% of the total taxes paid by an average Ontario family annually to all levels of government. The various forms of taxes paid to governments include; income taxes, Employment Insurance and Canada Pension Plan premiums, property taxes, consumption taxes such as the GST and PST, and embedded taxes, which are included in the price of items such as gasoline, liquor and tobacco.

Toronto's 2007 Performance Measurement and Benchmarking (PMB) Report was released in April 2009 and focuses on providing performance measurement and benchmarking results for the major services the City of Toronto provides with the 5.6% share of the total tax dollar. The report can be found at www.toronto.ca/city_performance/pdf/consolidated-2007-PMBR-report.pdf)

Toronto's PMB Report provides service activity level and performance measurement results in 23 service areas and includes up to eight years of Toronto's historical data to examine internal trends, as well as a comparison of 2007 results externally to 14 other municipalities through the Ontario Municipal CAOs Benchmarking Initiative (OMBI). The report includes colour coded summaries of results, supporting charts and achievements from 2008 and planned 2009 initiatives that will further improve Toronto's operations in the future.

The process of examining and benchmarking performance encourages Toronto's service areas to continuously look for opportunities to improve operations and performance. As part of the Operating Budget decision making process all City services are quantified and evaluated using performance measures. Over the next two years financial planning direction is to move towards a service-based, performance-focused, and multi-year budget process through the introduction of a new budgeting system beginning in 2011 based on a full Public Service View for the City of Toronto.

Toronto's Performance Measurement Framework Overview

The City of Toronto's performance measurement framework for service delivery is comprised of the following two categories of indicators/measures:

1. **Service/Activity Level Indicators**
   Provide an indication of the service/activity levels, by reflecting the amount of resources approved by Council or the volumes of service delivered to residents. For the purposes of comparing to other municipalities results are often expressed on a common basis, such as the number of units of service provided per 100,000 population.

2. **Performance Measures**
   - *Efficiency* – compares the resources used to the number of units of service provided or delivered. Typically this is expressed in terms of cost per unit of service
   - *Customer Service* – measures the quality of service delivered relative to service standards or the customer's needs and expectations
   - *Community Impact* – measures the outcome, impact or benefit the City program is having on the communities they serve in relation to the intended purpose or societal outcomes expected. These often tie to the mission statements of the program or service

It is the responsibility of staff, with the financial resources and associated service levels and/or standards approved by Council, to deliver service as efficiently, and with the highest customer service and/or positive impact on the community, as possible.

Summary of Results in Toronto's 2007 Performance Measurement & Benchmarking Report

The most accurate comparison for any municipality is to examine one's own year-over-year performance and longer-term historical trends. For this reason, it was considered important to include up to eight years of Toronto's internal data in the PMB report.

Toronto is unique among Ontario municipalities because of its size and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area.

Approximately 20 million tourists visit Toronto each year and there is an estimated daily influx of 314,000 non-resident vehicles entering the City from surrounding regions during the morning rush hours, in addition to non-residents entering the City through public transit. All of these factors pose special demands on Toronto's municipal services.

Even Toronto's largest single-tier municipal comparators within Ontario, such as Hamilton and Ottawa, have a significant rural component that Toronto does not.

Despite the unique characteristics of Toronto, such as our much higher population density, there is also value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing. The fifteen municipalities that comprise OMBI serve more than 9.3 million residents or 73% of Ontario's population for regional services.

Highlights of Toronto's PMB report are summarized below

Internal Trends – Service/Activity Level Indicators
The PMB Report includes 41 service/activity level indicators. Of these indicators, 88% of the results remained stable or increased (favourable) in relation to 2006. Examples of some of the areas in which Toronto's service levels or levels of activity increased in 2007 are:

- More ICI (Industrial, commercial and Institutional) building permits and residential permits under $50,000 were issued
- The number of emergency medical calls responded to by EMS increased
- There were increased hours of service in the Library system
- More parking spaces were added
- The kilometres of the trail system in parks was increased
- More police staffing was added
- The number of Social Housing units was increased
- More public transit vehicle hours were provided

Internal Trends – Performance Measures

The PMB Report includes 101 internal performance measures, efficiency, customer service and community impact measures. Of these measures, 66% of them improved or were stable compared to 2006. Examples of areas in which Toronto's 2007 performance indicators improved include:

- Increasing construction value of ICI building permits issued, more residential units were built and there was a lower cost per building permit issued
- There was an increase in the supply of subsidized child care spaces relative to the low income child population
- Continuing high rate of resident satisfaction in homes for the aged
- Decreasing crime rates for total (non-traffic) crime, violent crime, property crime and youth crime
- Improving pavement condition of Toronto's roads system and decreasing costs of maintaining the paved surface of roads
- Decreasing total cost of social housing per unit
- Increasing solid waste diversion rates and reduced rate of complaints regarding collection
- Increasing use of registered sports and recreation programs and a higher percentage of available spaces (capacity) was utilized
- Public transit trips per person increased as did the number of and trips per vehicle hour
- Decreasing amounts of drinking water used per household

External Comparisons – Service/Activity Level Indicators:

There are 51 service/activity level indicators, in the PMB report where Toronto's results can be compared and ranked with other municipalities. Toronto's 2007 service/activity levels were higher than the OMBI median for 49% of the indicators.

Services where Toronto's size and high population density require higher service levels, indicative of large densely populated cities, include:

- A higher number of police staff (officers and civilians) per 100,000 population
- The highest number of transit vehicle hours per capita, because of Toronto's multi-modal system and high transit use
- The highest number of library holdings (collection) per capita, due to our extensive research and reference collections, electronic products and multilingual collections
- Higher spending per capita on cultural services due to the size of Toronto's arts and culture community
- A higher number of on-street parking spaces

There are also examples in the report where Toronto has comparatively lower service levels because of factors resulting from higher population density compared to less densely populated municipalities which require proportionately more facilities or infrastructure to be within a reasonable travel distance of their residents. For example, Toronto has the lowest number of road lane kilometres per 1,000 population and a lower number of library hours per capita.

External Comparisons – Performance Measures:

There are 103 measures of efficiency, customer service and community impact, in Toronto's 2007 PMB Report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles.

Toronto's results are higher than the OMBI median for 55% of the indicators. Examples where Toronto has the top/best result of the OMBI municipalities include:

- The shortest EMS response time to emergency calls
- The lowest rate of residential fire related injuries per 100,000 population
- The lowest rate of governance and corporate management costs as a percentage of total operating expenditures (single-tier municipalities)
- The highest pavement quality rating for our roads system
- The highest rate of library use
- The highest solid waste diversion rate for houses
- The highest rate of public transit use

World Bank Initiative to Develop City Indicators

It is also important to compare Toronto internationally to other large cities which lead to Toronto's participation in a World Bank sponsored initiative to develop an integrated approach for measuring and monitoring the performance of cities. Their objective was to develop a standardized set city indicators that measure and monitor city performance and quality of life globally.

The initiative was launched in June 2006 at the World Urban Forum and the pilot process involved nine cities from four countries:

- Canada – Toronto, Montreal and Vancouver
- United States – King County, Washington
- Brazil – São Paulo, Belo Horizonte and Porto Alegre
- Columbia – Bogotá and Cali

The objective for the indicators developed in this pilot process was that they would be applicable to all cities in the world regardless of geography, culture, affluence, size, economic strength, or political structure. The indicators cover a total of 22 theme areas, eight of which relate to quality of life indicators such as civic engagement, culture, economy and the environment.

The City Indicators Initiative is now being managed by a newly established Global City Indicators Facility (GCIF) within the Cities Centre at the University of Toronto. Financial support for the facility will be provided for three years by the World Bank's Development Grant Facility and others. Participation in the GCIF has now expanded significantly beyond the initial pilot group.

It is expected that this initiative will still take some time before comparable results will become available, but if successful it will provide a valuable additional source of information to assess how well Toronto is doing from both a service delivery and quality of life perspective.

Toronto in International Rankings and Reports

Toronto continues to be considered one of the most liveable and competitive cities in the world as demonstrated by various international rankings and reports. These include:

- Toronto made Forbes Magazine's 2008 list of the top 10 most economically powerful cities, beating out Madrid, Mexico and Philadelphia for the number 10 spot. According to Forbes, Toronto continues to be the economic heart of one of the world's wealthiest countries, and along with London, is the fastest growing G7 financial centre.
- KPMG's 2008 Competitive Alternatives study found that Toronto continues to offer one of the most cost-effective business and investment climates in the world. Toronto ranked 15th, ahead of U.S. cities such as Chicago, Detroit, New York, Philadelphia and Phoenix.
- According to the Economist Intelligence Unit (the Economist Magazine), Toronto continues to rank fifth in the world for liveability; after Vancouver, Melbourne, Vienna and Perth.
- For the third year in a row, Toronto's quality of living was ranked 15th in the world by Mercer Human Resources Consulting. Canadian cities dominated the rankings in the Americas (North, Central and South America) with Toronto once again placing second after Vancouver.
- A survey conducted by Z/Yen Group Limited for the City of London, in September 2008, ranked Toronto 11th on the Global Financial Centres Index (GFCI), just behind Frankfurt, Boston and Dublin, and ahead of Guernsey and Jersey. Toronto has gained a position since the September 2007 report.
- In its November/December 2008 issue, Foreign Policy (FP) Magazine ranked Toronto as one of the world's top 10 global cities, after New York, London, Paris, Tokyo, Hong Kong, Los Angeles, Singapore, Chicago and Seoul.
- The World Intellectual Property Organization, which tracks the number and types of patents that have been issued worldwide, reported that Toronto had the 18th-highest number of patents globally. Patents are one of the most direct ways of measuring innovation.
- The 2008 Worldwide Centres of Commerce Index ranked Toronto 13th in the world (after London, New York, Tokyo, Singapore, Chicago, Hong Kong, Paris, Frankfurt, Seoul, Amsterdam, Madrid and Sydney), and third in North America (after New York and Chicago).

Toronto's PMB report focuses on performance measurement results in specific service areas; however it is by no means the only type of reporting done by Toronto in this area. Links, to other report cards or indicator reports issued by the City of Toronto or in association with the City, are noted below:

- **Children's Report Card:** www.toronto.ca/reportcardonchildren
- **Housing & Homelessness Report Card:** www.toronto.ca/homelessness/index.htm
- **Long-Term Care Report Card:** www.toronto.ca/ltc/reportcard.htm
- **Public Health Profiles and Indicators:** www.toronto.ca/health/hsi/hsi_2004_overview.htm
- **Economic Indicators:** www.toronto.ca/business_publications/indicators.htm
- **Federation of Canadian Municipalities – Quality of Life:** www.fcm.ca/english/View.asp?x=477&id=364
- **Vital Signs – Issued by Toronto Community Foundation:** www.tcf.ca/vitalinitiatives/vitalsigns.html

Conclusion

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency and quality and beneficial impact on our communities.

TREASURER'S REPORT

The Consolidated Financial Statements are intended to provide Council, the public, the City's debenture holders, and other stakeholders, an overview of the state of the City's finances at the end of the fiscal year and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

The financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Ernst & Young LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon.

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the financial resources the City has available for future services and the future revenues required to pay for past transactions).
Consolidated Statement of Financial Activities	Outlines revenues, expenditures and financing in the year, as well as fund balances at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.
Consolidated Statement of Cash Flows	Summarizes how the City's cash position changed during the year by highlighting the City's sources and uses of cash.
Consolidated Schedule of Current Operations	Outlines revenues, expenditures and financing for current operations in the year with comparisons to budget, as well as operating fund balance at year end.
Consolidated Schedule of Capital Operations	Outlines revenues, expenditures and financing for capital operations in the year with comparisons to budget, as well as capital fund balance at year end.
Consolidated Schedule of Reserves and Reserve Funds	Summarizes funds raised by the City in the year for reserve and reserve funds, what those funds were used for and how they compared to the budget.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions and government business enterprises that the City effectively controls. There are 108 entities that are included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. The remaining notes to the statements provide further detail about the City's financial position and results are an integral part of the statements.

Under PSAB rules, only the Consolidated Statement of Financial Position, Consolidated Statement of Financial Activities and Consolidated Statement of Cash Flow are required statements. However, to aid readers in understanding the financial statements, schedules have been prepared for current operations, capital operations, and reserves and reserve funds.

Consolidated Statement Of Financial Position

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet with the exception that tangible capital (physical) or "fixed" assets are not recorded. As indicated in Note 20 to the Consolidated Financial Statements, beginning in 2009, Tangible Capital Assets will be reported on this statement. This statement focuses on the City's assets and liabilities. The difference between the two is the City's net liability position and represents the net amount that must be financed from future budgets. The City's net liabilities are broken down in the "Municipal Position" portion of the statement and are divided between the funds (assets) the City has set aside for future purposes and the gross amount of the City's debt that is intended to be funded in the future. The City has three funds:

(a) The *Operating Fund* is primarily made up of the City's financial interest in its government business enterprises, which consist of Toronto Hydro Corporation, Toronto Parking Authority, Toronto Economic Development Corporation (TEDCO) (prior to November 14, 2008) and Enwave. It also includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the TTC, Toronto Community Housing Corporation (TCHC) and the Toronto Atmospheric Fund (TAF) are the most prominent. The Operating Fund also contains the 2008 surplus which will be distributed in 2009 in accordance with the 2009 Budget.

(b) The *Capital Fund* represents the net position of the City's capital projects. The capital fund is in a deficit position, which indicates that financing (such as a debt issuance) for certain projects has yet to occur.

(c) The *Reserves and Reserve Funds* represent past revenues and contributions that have been set aside for future use. The majority of these funds are earmarked for future capital financing and for stabilizing the peaks and valleys of operating expenditure and revenue levels from year to year. A breakdown of the City's reserves and reserve funds can be found in Note 15 to the Consolidated Financial Statements.

In addition to the reserves and reserve funds, the City also has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenditures occur in the future. For example, development charges, parkland dedication fees and Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in Financial Liabilities and not in the Municipal Position. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 6(a) to the Consolidated Financial Statements.

Consolidated Statement of Financial Activities

The Consolidated Statement of Financial Activities is considered to be the municipal equivalent to the private sector's income statement. However, like the Consolidated Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most revenues and expenses, this is not a "full accrual" model as the costs of the City's physical assets are expensed in the year they are purchased or constructed. As indicated in Note 20 to the Consolidated Financial Statements, this will change for the 2009 reporting period when capital assets will be amortized over the expected useful lives of the assets and amortization expense will be recorded in the statement.

The Consolidated Statement of Financial Activities provides a summary of the revenues, expenditures and financing activities throughout the reporting period and reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

The focus of the Consolidated Statement of Financial Activities is the net expenditure/revenue figure found in the middle of the statement. A net expenditure (referred to in the statement as an "Excess of Expenditures over Revenues") figure represents an amount that the City has to finance from sources other than operating revenue. A net revenue figure represents an amount that the City could use to repay past financing or could set aside in reserves for future use. The "Financing" section of the statement below this figure outlines the new long-term debt the City has issued (debentures) or assumed (employee benefits, solid waste obligation) in the year and the debt retired in the year.

Restatement of Prior Period Consolidated Financial Statements

During 2009, the City identified two items that resulted in a restatement of 2007 comparative figures:

1) an error in the actuarial valuation of sick leave liabilities which resulted in a net increase in accrued benefit liabilities of $68.8 million;
2) a change in the organizational structure of Toronto Waterfront Revitalization Corporation (TWRC) resulting in a decrease in net expenditures of $6.1 million.

(See Note 2 of the Consolidated Financial Statements)

Financial Condition

The most important measure of any government's financial condition is its net financial asset (liability) position: financial and non-financial assets (cash, receivables, investments, inventory and prepaid expenses) less financial liabilities (trade and employment payables, mortgages and debentures). The City's net liability position at December 31, 2008 (as compared to 2007) increased by $444 million to $3.33 billion. This increase in the City's net liability is primarily due to:

- growth in deferred revenue resulting from receipt of funds under the Investing in Ontario Act, 2008 ($238 million);
- increase in restricted public transit funds, mainly from Move Ontario 2020 monies received during the year ($261 million);
- increase in development charge and planning act charge obligatory reserves ($128 million);
- increase in employee benefit liabilities ($188 million);
- partially offset by an increase in cash and investments ($337 million).

The City's long-term debt (Note 10) remained virtually unchanged in the year as debt principal repayments were almost equivalent to new debt issued.

In order to improve the City's net financial liability position, the City continues to implement its Long Term Fiscal Plan. Some key measures included in the plan are: tax policies which enhance economic competitiveness and improve Toronto's business climate, utilization of user rate adjustments for environmental and cost control purposes, creating new revenue sources (Municipal Land Transfer Tax and Personal Vehicle Tax, approved by City Council in October 2007 and effective 2008) and working with the Province to realize the upload of social service program costs in 2008 and beyond.

While the debt financing will continue to grow due to state of good repair funding requirements and increased focus on improving public transit, the City's updated Capital Plan, inclusive of enhanced federal and provincial funding and combined with the City's strategic infrastructure partnership reserve fund, ensures a solid financing plan is in place for the next five years.

The positive effects of implementing these financial plans are reflected in the City's AA and AA+ independent credit ratings.

Another key indicator of a government's financial condition is the liability amount that must be paid from future revenues (see Note 12 of Consolidated Financial Statements). These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities and environmental liabilities. In 2008, the total amount that will be recovered from future property taxes and other revenues grew by $188 million to $6.45 billion. This increase mainly consists of:

- an increase of $188 million in employee benefits liabilities;
- an increase of $32 million in the property and liability claims provision during 2008;
- an increase in landfill closure and post-closure liability of $11 million;
- offset by decreases in mortgage and long term debt of $47 million.

Table 1 outlines the trend in financial asset and liability growth over the last five years.

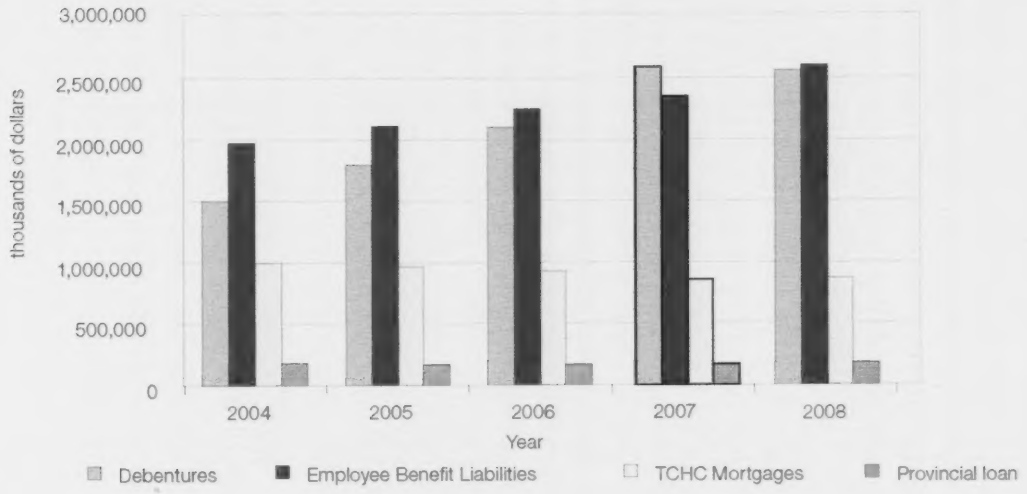
Table 1
Net Liabilities – Five-year Summary

(in thousands of dollars)

Net Financial Liabilities	Average Annual Increase	2008	2007	2006	2005	2004
Financial Liabilities	9.11%	10,647,259	9,631,062	8,451,699	8,067,913	7,526,205
Financial and Non-financial assets	7.32%	7,312,432	6,739,792	6,166,534	5,825,636	5,514,894
Net Liabilities	13.82%	3,334,827	2,891,270	2,285,165	2,242,277	2,011,311
Percentage Increase		15.34%	26.52%	1.91%	11.48%	

The City's net liabilities have increased by an average annual rate of 13.82% over the last five years attributable to increases in long-term debt to third parties and in long-term employee benefit liabilities. The significant growth in debt has been driven mainly by the need to finance transit capital expenditures and to finance social housing projects as well as the growth of employee benefit liabilities. Chart A provides the breakdown of long-term liability growth by debt type.

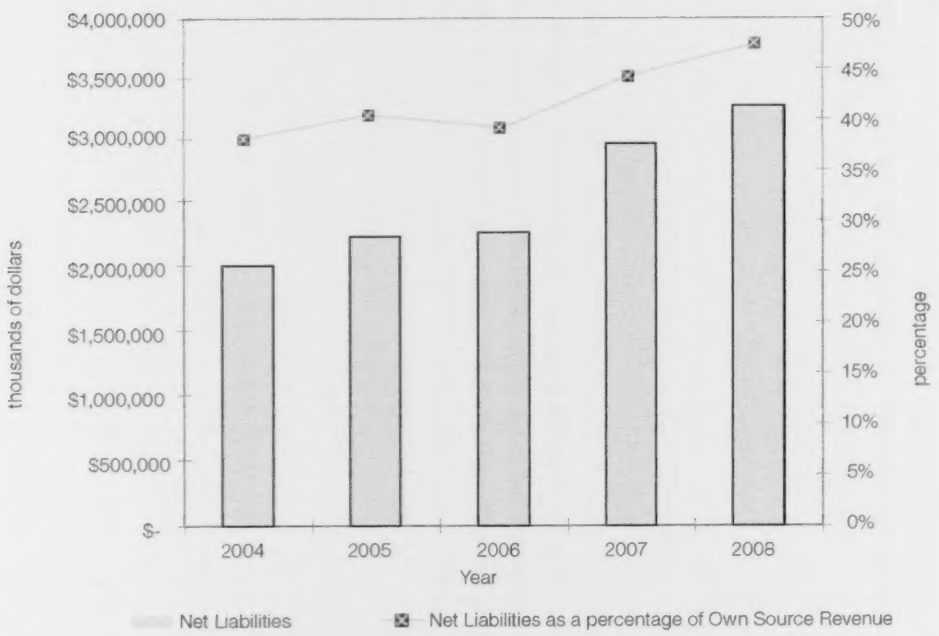
Chart A > LONG-TERM LIABILITIES



Additional information on the mortgage liabilities of TCHC can be found in Note 9 of the Consolidated Financial Statements. Note 10 provides additional information about the provincial loan and the City's debenture debt. Further detail about the City's employee benefit liabilities can be found in Note 11 of the Consolidated Financial Statements.

To put the City's net liabilities into a different context, Chart B expresses the net liabilities as a percentage of the City's own source revenues (excluding government transfers and earnings from investments in government business enterprises (GBE's)). The net liabilities as a percentage of own source revenues has grown from 36.4% to 47.3% in the last five years.

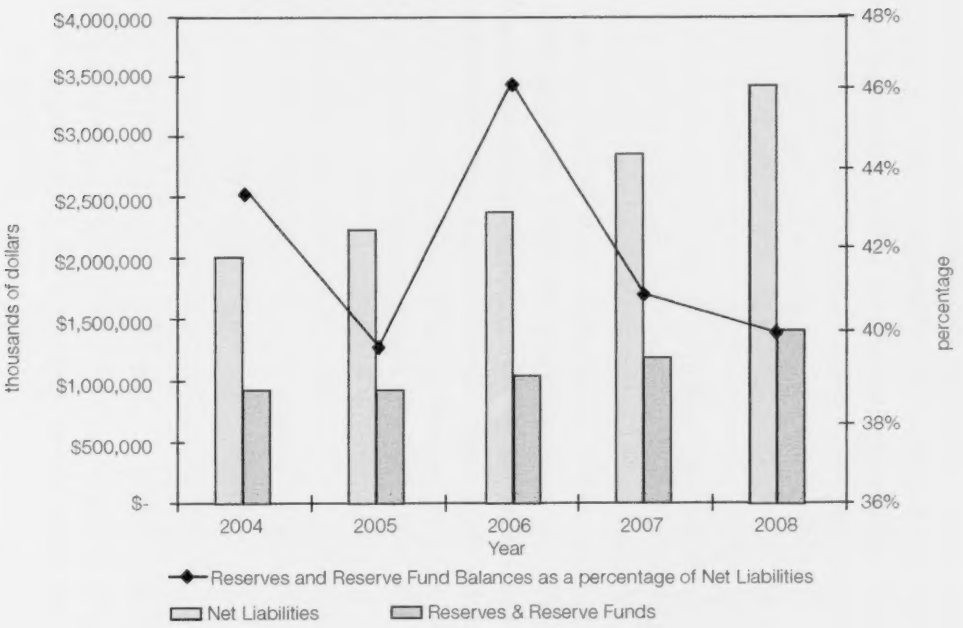
Chart B > NET LIABILITIES AS A PERCENTAGE OF OWN SOURCE REVENUES



The City's net liabilities substantially exceed the City's reserve and reserve fund balances as shown in Chart C. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the 10-year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Employee Benefits) are not adequate to cover the future obligations for which they have been set aside.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (see Note 6 (a) of Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements are lower than those included in staff reports to the Budget Committee and Council which include obligatory reserve fund balances.

Chart C > RESERVES AND RESERVE FUND BALANCES AS A PERCENTAGE OF NET LIABILITIES



Note 15 of the Consolidated Financial Statements provides a breakdown of the City's reserves and reserve funds.

Analysis of Key Asset and Liability Accounts

Accounts Receivable

Accounts receivable balances increased $104 million in 2008. The increase consists of the following:

- receivable from the Government of Canada for Federal Gas Tax for 2008 ($40.7 million);
- receivable from the Government of Ontario for Ontario Bus Replacement Program ($25.7 million) and Personal Vehicle Tax ($3.7 million);
- accrual of revenue for the new Solid Waste Management Residential Fee Program ($12.9 million);
- accrual from York regarding their subway contribution payment ($10 million); and
- miscellaneous other increases.

	(in thousands of dollars)	
Accounts Receivable	**2008**	**2007**
Government of Canada	178,045	146,088
Government of Ontario	77,452	45,813
Other municipal governments	12,893	1,415
School board	300	600
Water fees	103,920	107,513
Other Fees and Charges	442,478	409,381
Total	**815,088**	**710,810**

Property Taxes Receivable

Property taxes receivable includes all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, local improvement charges), accumulated penalties and interest charges, net of allowance for uncollectible taxes. A breakdown of this receivable is noted below:

	(in thousands of dollars)	
Property Taxes Receivable	**2008**	**2007**
Current year	184,623	158,156
Prior year	26,622	22,780
Previous years	26,942	30,955
Interest/penalty	30,363	30,782
Less: allowance for doubtful accounts	(22,476)	(22,301)
Total	**246,074**	**220,372**

Total year-end property taxes receivable increased by $25.7 million mainly as a result of the following:

- Economic conditions experienced in 2008 resulted in a $14.3 million increase in December 31, 2008 taxes receivable as compared to December 31, 2007. This amount is fully secured by the underlying property value.
- Year-end receivables, which are due in future periods, increased by $11.2 million. These receivables include supplementary/omitted levies and other charges issued late in the year and due in the following year, as well as tax increase deferrals under the City's tax assistance program for seniors, which only become due when property ownership has transferred.

Other Assets

Other Assets increased by $52.7 million to $63.9 million (2007: $11.2 million) due primarily to:

- TCHC advancing an additional $24.2 million in 2008 to Dundas Parliament Development Corporation (DPDC) for the interim financing of their construction, and
- Consolidation of TEDCO, which increased other assets ($28.5 million) for the following: land held for resale ($10.5 million), mortgages receivable ($16.6 million) and other miscellaneous assets ($1.4 million).

Investments

Investments increased by $241 million to $3.82 billion (2007: $3.58 billion) due primarily to: receipt of funds in 2008 from the Province of $452 million to fund public transit initiatives and receipt of provincial Investing in Ontario Act funds of $238 million, offset by debt issuance that was $415 million less than budgeted. Details about the City's investment portfolios and their yields are provided in Note 3 to the Consolidated Financial Statements.

Investment in Government Business Enterprises

During the year, the City reorganized the activities previously undertaken by Toronto Economic Development Corporation (TEDCO), with portions transferred to Build Toronto, Invest Toronto and Economic Development, while certain activities remain with TEDCO. As a result of these changes, TEDCO no longer qualifies as a government business enterprise (GBE), and is consolidated as an agency, board or commission (ABC), from the date of incorporation of the two new companies, November 14, 2008. Additional information regarding the City's remaining GBEs as at December 31, 2008, including 2008 transactions for all GBEs with the City as well as condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities

The breakdown of accounts payable and accrued liabilities at December 31, 2008 with 2007 comparatives is as follows:

	(in thousands of dollars)	
Accounts Payable and Accrued Liabilities	**2008**	**2007**
Local Board trade payables	465,946	347,138
City trade payables and accruals	770,536	821,201
Payable to school boards	157,376	204,403
Provision for assessment appeals	397,182	373,943
Credit balances on property tax accounts	65,692	107,681
Payroll liabilities	114,086	91,942
Total	**1,970,818**	**1,946,308**

Local trade payables were higher in 2008 primarily due to increases in Toronto Transit Commission (TTC) trade payables of $75.1 million and consolidation of TEDCO payables of $26.3 million. The provision for tax assessment appeals increased by approximately $23.2 million given that the total value outstanding with the Assessment Review Board (ARB) increased over the year due to the slow pace of appeals being cleared by the Board. The decrease in credit balances on property tax accounts is due to refunds being issued throughout the year thus reducing the outstanding credit balance. Payroll liabilities were higher as an additional day's pay was accrued in 2008.

Deferred Revenue

Deferred revenue increased by $684 million to $1.92 billion (2007: $1.24 billion) primarily due to money received in 2008 from the Provincial government for the Investing in Ontario Act – $238 million and funds for Move Ontario 2020 – $452 million, the majority of which remained unspent as of December 31, 2008.

Other Liabilities

Other liabilities increased by $156 million to $418.1 million (2007: $262.3 million), mainly as a result of:

- an increase in the property and liability claims provision ($31.6 million);
- an increase in the TCHC bank loan ($43 million);
- increases in Toronto Transit Commission (TTC) in unsettled accident claims ($20.9 million); and
- inclusion of TEDCO environmental liabilities ($47.8 million).

Net Long-Term Debt

Net long-term debt decreased by $17 million to $2.74 billion (2007: $2.76 billion) as follows: issuance of debt totalling $302 million by the City and Toronto Community Housing Corporation (TCHC), offset by debt repayments and interest earned on sinking funds totalling $319 million.

Although the City was planning to issue $200 million in debt in the Fall of 2008, the credit markets froze and capital market conditions deteriorated around mid-September due to the sub-prime mortgage crisis, subsequent bank bailouts and the bankruptcy of Lehman Brothers in the United States. The decision was made not to issue debt during the remainder of 2008 because the City's cost of borrowing would have increased dramatically. 2009's authority was increased to $700 million as the debt markets were expected to improve in 2009, which has occurred in recent months.

Employee Benefit Liabilities

Employee benefit liabilities increased by $188 million to $2.59 billion (2007: $2.40 billion), as follows:

- increase in the non-OMERS pension plan liabilities ($78 million);
- increase in sick leave benefits ($17 million);
- increase in workers' compensation benefits ($18 million);
- increase in post-employment benefits ($50 million); and
- change in unamortized actuarial losses ($25 million).

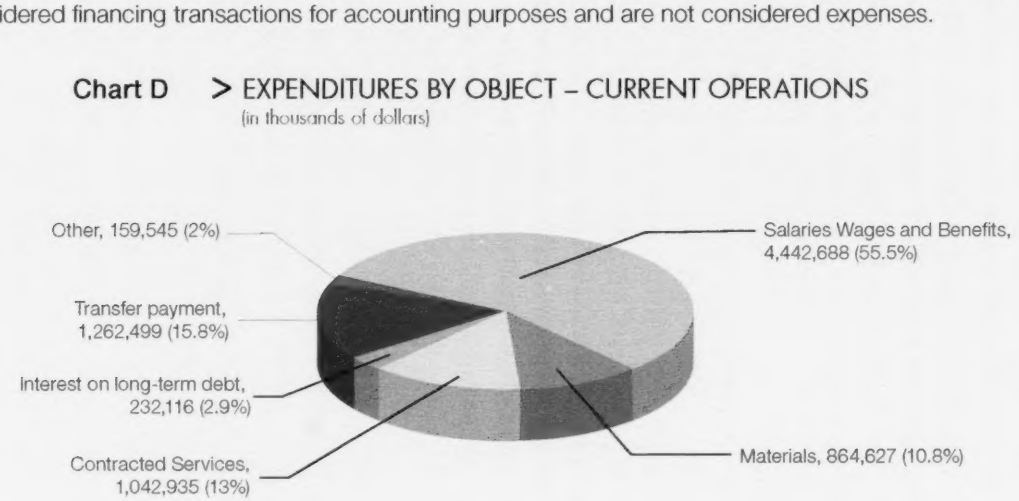
Additional information is provided in Note 11 of the Consolidated Financial Statements.

Operating Expenditures

Gross operating expenditures for 2008 totalled $8.0 billion (2007: $7.61 billion). The increase was generated largely by inflationary increases (wages, materials and contracted services), increased employee benefit liabilities and increased interest charges on long-term debt.

Chart D breaks down the gross expenditures by cost object. Salaries, wages and benefits accounted for the largest portion at 55% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart D > EXPENDITURES BY OBJECT – CURRENT OPERATIONS
(in thousands of dollars)


Other, 159,545 (2%)
Salaries Wages and Benefits, 4,442,688 (55.5%)
Transfer payment, 1,262,499 (15.8%)
Interest on long-term debt, 232,116 (2.9%)
Contracted Services, 1,042,935 (13%)
Materials, 864,627 (10.8%)

Note 14 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenditures by object.

Table 2 provides a comparison of 2008 actual expenditures by program versus budget, and a comparison with the previous year's actuals.

Table 2
Current Operating Expenditures by Programs

(in thousands of dollars)

Expenditures	2008 Budget	2008 Actual	Difference	Change %	2007 Actual
General government	582,290	666,511	(84,221)	(12.6%)	491,541
Protection to persons and property	1,329,084	1,423,640	(94,556)	(6.6%)	1,426,550
Transportation	1,719,812	1,805,884	(86,072)	(4.8%)	1,656,981
Environmental services	621,481	603,145	18,336	3.0%	593,947
Health services	351,313	368,773	(17,460)	(4.7%)	349,179
Social and family services	1,850,150	1,794,286	55,864	3.1%	1,761,551
Social housing	608,793	558,895	49,898	8.9%	609,646
Recreational and cultural services	659,201	683,682	(24,481)	(3.6%)	650,896
Planning and development	33,612	99,594	(65,982)	(66.3%)	66,323
Total	**7,755,736**	**8,004,410**	**(248,674)**	**(3.2%)**	**7,606,614**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 17 in the Consolidated Financial Statements).

Table 2 indicates that actual expenditures in 2008 were higher than budget by $249 million. This is primarily due to an increase in the PSAB accrual for adjustments for retirement and post employment benefits ($110.3 million) and an increase in legacy pension plan liabilities ($77.6 million) due to the immediate recognition of actuarial gains or losses on the City's legacy pension plans which incurred investment losses in 2008. Both of these items are non-cash items that are not included in the City's budget.

In addition to the employee benefit liabilities noted above, a detailed breakdown of contributing factors by function is as follows:

- The General Government category includes an increase in provision for property liability claims ($31.6 million); accruals for tax rebates payable for the new Solid Waste Management Residential Fee Program ($56.6 million), Municipal Land Transfer Tax ($10.3 million) and Personal Vehicle Tax ($1.9 million); offset by the transfer of the $75 million special hydro dividend received in operating, prior to transfer to the TCHC State of Good Repair Reserve Fund.

- Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) include increased WSIB occupational illness claims ($7.1 million).
- Transportation includes Roads/Traffic signals maintenance and Transit. The increase resulted from increased snow removal and winter maintenance costs as a result of the large and frequent accumulation of snow. Toronto Transit Commission expenditures were higher than budget primarily as a result of accident claims expenses which were higher than anticipated ($20 million).
- Environmental services spending was lower than budget due primarily to lower production and efficiencies.
- Health Services increased expenditures included overtime costs due to hospital offloading delays ($4.4 million).
- Social and Family Services spending was lower than budget by $55.9 million as average monthly caseload of 75,708 compared favourably to the budgeted caseload of 77,000.
- Social Housing decrease was related to lower than budget spending at TCHC ($50 million).
- Planning and development spending was higher than budget due to consolidation of Toronto Water Revitalization Corporation (TWRC) ($11.5 million) and TEDCO ($46.7 million).

City Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2008, property taxes made up 41.98% (2007 – 41.92%) of the City's operating revenue.

The five year summary of revenues outlined in Table 3 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been low. In addition, the City has been limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base. The commercial, industrial and multi-residential assessment base represents approximately 58% of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenditures and minimize property tax rate increases. Council's approval of the Municipal Land Transfer Tax and Personal Vehicle Tax in October of 2007, both of which were implemented in 2008, are examples of the action taken by the City to diversify its revenue sources to address this issue.

Table 3
Consolidated Revenues – Five-year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2008	2007	2006	2005	2004
Property taxes	3.17%	3,369,949	3,285,947	3,187,263	3,082,009	2,974,975
Municipal land transfer tax (MLTT)	n/a	165,743	—	—	—	—
Personal Vehicle Tax (PVT)	n/a	14,992	—	—	—	—
User charges	5.82%	2,108,423	1,966,890	1,856,407	1,766,557	1,681,994
Government transfers	8.55%	2,222,619	1,952,047	2,254,726	1,831,399	1,600,688
Other	13.72%	1,630,979	1,655,652	1,236,089	1,045,713	975,388
Total	**7.12%**	**9,512,705**	**8,860,536**	**8,534,485**	**7,725,678**	**7,233,045**
Percentage Increase		7.36%	3.82%	10.47%	6.81%	—

Increases in property tax revenues averaged 3.17% over the past five years. Over the same period, public sector wages increased annually by 3% and non-residential construction costs increased by an average of 7.07% annually.

User fees have increased in 2008 due to an increase in Transit Fare passenger revenue ($56.4 million) as a result of three million additional riders, higher water revenue ($23.8 million) and additional revenue due to new waste collection fees implemented in 2008 ($58 million).

The government transfers increase in 2008 is primarily attributable to increased Provincial and Federal Grants for Social and Family Services ($76.8 million) and increased subsidies for TTC: operating ($149 million) and capital ($61 million).

The decrease in other revenue in 2008 as compared to 2007 is attributed primarily to receiving an one time payment of $36.5 million from Astral Media in 2007 for the street furniture program.

Table 4 provides a comparison of 2008 revenues by type to budget and Table 5 provides a comparison to previous year.

Table 4
Current Operating Revenue
Budget to Actual Comparison (2008 Performance)

(in thousands of dollars)

Revenue	2008 Budget	2008 Actual	Difference	Change %
Property Tax revenues	3,315,948	3,369,949	54,001	1.6%
MLTT and PVT	-	180,735	180,735	n/a
User charges	2,132,013	2,108,423	(23,590)	(1.1%)
Government transfers	1,973,170	2,014,261	41,091	2.0%
Other Revenue	759,094	785,381	26,287	3.3%
	8,180,225	**8,458,749**	**278,524**	**3.3%**

The favourable variance in the Property tax revenues is mainly attributable to the City receiving an additional (fourth) supplementary/omitted assessment roll from MPAC ($18.8 million), and BIA levies ($16.9 million).

The unfavourable variance in user charges revenue is mainly attributed to reduced water usage during summer months due to the wet summer ($19 million). Although water revenues increased in comparison to 2007 due to the rate increase, overall volumes of water decreased during the year.

Table 5
2008 Current Operating Revenue Comparison to Prior Year

(in thousands of dollars)

Net revenues	2008 Actual	2007 Actual	Difference	Change %
Property tax revenues	3,369,949	3,285,947	84,002	2.6%
MLTT and PVT	180,735	—	180,735	100.0%
User charges	2,108,423	1,966,890	141,533	7.2%
Government transfers	2,014,261	1,762,325	251,936	14.3%
Other revenues	785,381	824,344	(38,963)	(4.7%)
	8,458,749	**7,839,506**	**619,243**	**7.9%**
Expenditures	8,004,410	7,606,614	397,796	5.2%
Net revenues	**454,339**	**232,892**	**221,447**	**95.1%**

Property tax revenues increased in 2008 due to the 3.385% tax rate increase on residential property (1.128% increase on commercial and other non-residential property) and a $26.6 million increase from assessment growth.

Capital Operations

Table 6 provides a comparison of 2008 capital expenditures and financing to budget and Table 7 provides a comparison with the previous year.

Table 6
Capital Operations Budget to Actual Comparisons

(in thousands of dollars)

	2008 Budget	2008 Actual	Difference	Change %
General government	156,002	99,683	56,319	36.1%
Protection to persons and property	104,905	103,758	1,147	1.1%
Transportation	1,176,412	879,346	297,066	25.3%
Environmental services	479,569	373,210	106,359	22.2%
Health services	11,469	8,370	3,099	27.0%
Social and family services	28,652	15,931	12,721	44.4%
Social housing	138,467	233,891	(95,424)	(68.9%)
Recreational and cultural services	218,290	157,837	60,453	27.7%
Planning and development	86,193	86,869	(676)	(0.8%)
Expenditures	**2,399,959**	**1,958,895**	**441,064**	**18.4%**
Revenues	1,262,795	967,108	(295,687)	(23.4%)
Debentures	749,735	308,823	(440,912)	(58.8%)
Operating fund transfers	132,442	180,889	48,447	36.6%
Net reserve/reserve fund transfers	228,560	60,355	(168,205)	(73.6%)
Landfill obligations	—	10,978	10,978	n/a
Environment Liabilities	—	(25)	(25)	n/a
Total revenue and financing	**2,373,532**	**1,528,128**	**(845,404)**	**(35.6%)**
Net expenditures	**26,427**	**430,767**	**(404,340)**	**(1530.0%)**

Gross capital expenditure levels continue to be under budget. This is primarily attributed to: the inability to find or secure suitable sites in accordance with planned timeframes; the need to revise design plans; delays in securing funds from cost-sharing partners; unanticipated delays in construction start-up and deferral of work; unanticipated legal and environmental issues; challenges in hiring qualified staff; and delays in the delivery of equipment from manufacturers. In addition, several projects were completed under-budget.

Transportation Services' lower than budget spending occurred mainly in the Program's major projects which require third party coordination and included the following:

- The *St.Clair Dedicated Right of Way* project which was under spent due to longer than anticipated utility work with Toronto Hydro and Toronto Water;
- The *Bloor Street Transformation* Project was delayed by a court challenge and scheduling adjustments arising from the need to accommodate the local BIA's expressed intent to minimize disruptions to their seasonal shopping period during the latter part of 2008; and
- The *Dufferin Jog Elimination* project experienced construction delays resulting from design changes and coordination obstacles with railways.

Toronto Transit Commission (TTC) lower than budget spending was mainly attributable to the following:

- Decreased project spending on Wheel-Trans due to difficulty in finding a manufacturer who is capable of producing a Para transit vehicle suitable to Wheel Trans' needs ($17.4 million);
- Surface track work deferral on the St. Clair Reserved Transit Line and deferral of associated track work on St. Clair ($37.1 million);
- Replacement of 40 foot diesel/electric hybrid buses behind schedule due to a strike at the bus manufacturer in 2007 ($30.5 million);
- Spadina Subway Extension project deferral of engineering work and property acquisition to 2009 ($46.5 million); and
- Purchase of streetcars delayed due to timing of the project ($54 million).

Table 7
Capital Expenditures by Program with Previous Year Comparison and Percentage Change

(in thousands of dollars)

Expenditures by Programs	2008	2007	Difference	Change%
General government	99,683	88,957	10,726	12.1%
Protection to persons and property	103,758	74,000	29,758	40.2%
Transportation	879,346	741,910	137,436	18.5%
Environmental services	373,210	466,105	(92,895)	(19.9%)
Health services	8,370	6,950	1,420	20.4%
Social and family services	15,931	19,924	(3,993)	(20.0%)
Social housing	233,891	194,138	39,753	20.5%
Recreational and cultural services	157,837	198,105	(40,268)	(20.3%)
Planning and development	86,869	69,856	17,013	24.4%
Total	**1,958,895**	**1,859,945**	**98,950**	**5.3%**

Although capital spending has remained under budget, actual spending increased significantly over the previous year for a majority of the programs in line with Council's direction to increase the level of capital completion rates. This included increased spending in 2008 in Toronto Water as a result of construction proceeding on several large projects ($65 million) offset by a decrease in Solid Waste (as the Green Lane landfill was purchased in 2007); increased spending in TTC due to delivery of additional diesel buses in 2008 and increased spending in TCHC for their social housing projects.

Segmented Reporting

Public Sector Accounting standard 2700 Segmented Disclosures came into effect for the 2008 reporting year. The purpose of the standard is to provide information about segments to:

- help users of the financial statements identify the resources allocated to support the major activities of the government;
- help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;
- help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
- enhance the transparency of financial reporting; and
- help users of the financial statements better understand the performance of the segments and the government reporting entity.

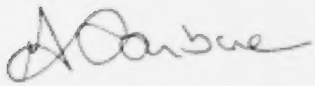
Although the standard does not prescribe which segments to report, the current year reporting has been based on reviews of other municipalities' reported segments and discussions with other municipal treasurers. For this first year, segmented reporting is provided for the functional spending areas (Appendix 2), entities (Appendix 3), as well as functional areas with comparisons to budget (Appendix 4). It is anticipated that the segmented information reported will change over time, and will include service level information, once the City has adopted a service level budget.

Risks and Mitigates

The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include: lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit, including building and expanding the transit system to meet the City's strategic goals, and accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding.

In 2008, the City made significant progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix A lists eight specific financial issues/risks and the actions taken in 2008 to address them.

Highlights include: diversifying the City's revenue sources and generating additional revenue from the Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT), approving a long-term plan to reduce unfunded liabilities, continuing tax policies which enhance economic competitiveness, continuing cost containment initiatives, and continuing to work with the Province to realize the upload of the social service programs.



Giuliana Carbone
Acting Treasurer

Toronto, Canada
May 15, 2009

APPENDIX A: KEY ISSUES/RISKS FACING THE CITY OF TORONTO

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
City has a higher cost structure than other municipalities in GTA	• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources • City Council continued to adopt strict budget increase guidelines for City divisions and ABCs • Cost containment measures remained in place • Completed 13 Program Reviews in 2006 and 2007. In 2008, three additional reviews were completed and one was initiated: > Accounting Services (Completed) > Inspections, Enforcement & Prosecution (Completed) > Office of Emergency Management (Completed) > City Planning (Ongoing) • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 for implementation (of Interim Plan) in 2010 for the 2011 budget process. The new system sets the foundation for multi-year performance/service-oriented operating budgets. The system will: > track and report performance measures and service level indicators; > alignment of complement management and complement planning processes; > assess cost performance efficiency; > enable better alignment of the City's limited resources to Council priorities; > provide flexibility to incorporate and track long-term service planning initiatives; > establish the framework to balance service levels and priorities with affordability. • Municipal Land Transfer Tax (MLTT) and Personal Vehicle Tax (PVT) implemented February 1 and September 1 respectively, representing revenues of $165 million and $15 million respectively in 2008	• Maintain continuous improvement initiatives including efficiency reviews, and enhanced performance measures and benchmarking • Continue to implement Program Reviews • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization • Apply aggressive budget targets for 2010 and 2011 • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies • Identify additional benchmarking opportunities

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
Demands for growth as laid out in Official Plan or other Sectoral and Program plans are not adequately funded	• Funding of $452 million received from MoveOntario2020 for transit development • Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of $870 million from the provincial government plus $75 million from the federal government has increased to approximately $1 billion at the end of 2008. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • Lobbied for permanent Federal Gas Tax funding, achieved with 2008 Federal Budget	• Continue to seek revenues that grow with the economy, such as 1 cent of the GST • Continue to estimate the costs related to growth plans • Continue to urge the Federal Government to: > establish a permanent, federally funded National Transit Strategy > deliver a national action plan on housing and homelessness – National Housing Strategy > share the equivalent value of 1 cent of the GST with municipal governments
There is variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations	• During 2008 the Provincial Municipal Fiscal and Service Delivery Review (PMFSDR) was completed, resulting in an implementation plan by the province to continue to upload certain social costs (Ontario Disability Support Program, Ontario Works and Court Security costs), by 2018	• Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services • Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues
Business property taxes are not competitive with the surrounding urban area (905 area code)	• The City has continued the implementation of "Enhancing Toronto's Business Climate – It's Everybody's Business", adopted by City Council in October 2005 – a 15 year plan to reduce municipal property taxes for businesses and multi-residential properties by approximately 20% for smaller businesses. 2008 was the third year of implementation. In 2008, the City accelerated implementation reducing the time frames by approximately two to three years (by 2013 for smaller business & by 2017 for all other business properties). Education taxes for these properties are also expected to decrease by approximately 20% from 2007 to 2014. • Initiated plan to provide tax increment equivalent grants to targeted sectors to encourage new business to locate in Toronto (e.g. Woodbine Live! Filmport approved in 2008) • Lower water rates for industrial and manufacturing sectors implemented in 2008	• Continue to implement the business climate tax strategy

Issue/Risk	Actions taken in 2008	Actions Planned for 2009 & Beyond
The City lacks adequate revenue sources to fund its municipal responsibilities	• Implementation of MLTT and PVT in 2008 • Continued the one cent GST campaign • Implemented a user fee for solid waste collection so that solid waste management services are now paid for through a user pay system and billed jointly with water on the City's utility bill.	• Continue to pursue stable senior government funding and access to sources of revenue that grow with the economy • Update the Long Term Fiscal Plan in 2009/2010 • Continue to work with the Province to secure long term permanent funding solutions, such as permanent funding to cover a portion of TTC operating.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• As noted previously, the PMFSDR was completed in 2008 resulting in an upload of certain social services through 2018	• Continue to lobby for the Province to honour its cost sharing formulae • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit
City's investment in ageing infrastructure has been lagging	• The City continued to plan for capital on a 10 year basis • Continued to invest funds in State of Good Repair Reserve Fund	• Approval of firm 10-year Capital Plan • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements • Complete the Capital Asset Accounting Project • Further enhance asset management planning • Continue to seek funding for transit projects from provincial and federal governments.
Employee benefits and other long-term liabilities are not adequately funded	• The City completed reviews of each element of employee benefits • The City amended the non-union sick leave plan, capping the long-term liability, converting it to a plan that provides for sick leave, without additional components • Council approved a long term plan to start to reduce the level of unfunded employee benefit liabilities	• Further implementation of approved strategies to reduce employee benefit liabilities • Further implementation of cost containment and employee education strategies consistent with recommendations made by the Mayor's Fiscal Review Panel and the Auditor General's Office